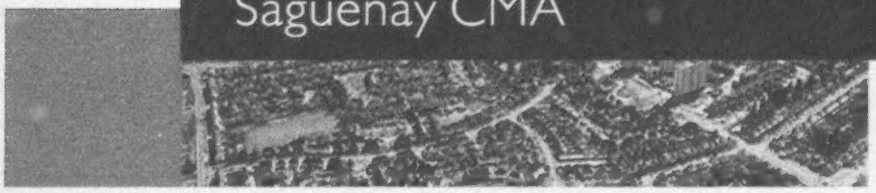
HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK

Saguenay CMA



Canada Mortgage and Housing Corporation

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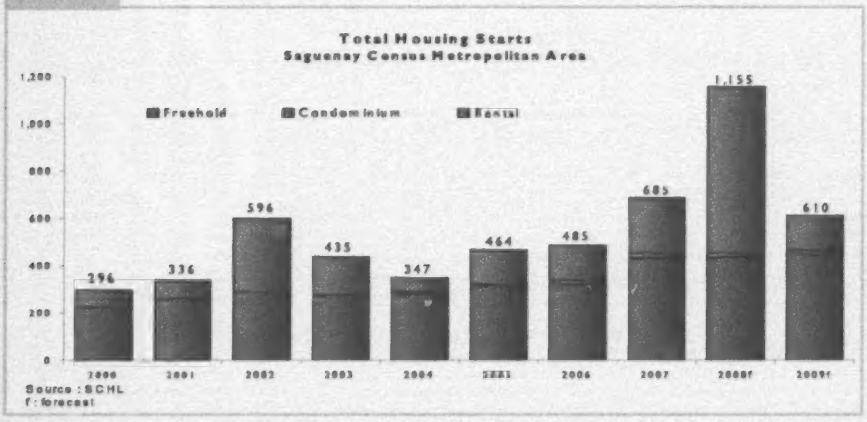
Economic and demographic conditions

The economic conditions in the Saguenay census metropolitan area (CMA) have greatly improved since the beginning of the current decade. In fact, while 65,600 jobs were occupied in the year 2000 in the Saguenay CMA, there were 70,225 in 2007, making for notable growth on the labour market. But how did this happen? The answer lies in the massive investments related to a number of major job sites, both in the area and elsewhere across the province, where the experience of several companies from the area is being sought. The last time that the area recorded a comparable economic boom, it was also because of a few major projects, especially in James Bay, in the 1980s. In recent years, the construction of the Péribonka IV, Chutes-Allard, Rapide-des-Cœurs and Eastmain-1-A hydroelectric power stations, as well as the widening of Highway 175, have been the source of job creation in the area. For 2008-2009, there

Figure 1



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should be some jobs created, despite the difficulties experienced by the forest industry. The construction of the service wharf in La Baie, the Rio Tinto Alcan AP50 technology plant and two retirement homes, each comprising 300 units, will further stimulate the job market in the area. As well, there is the creation of a new expeditionary wing at the Bagotville military base, where some 20 soldiers are expected in 2008, and a greater number in 2009. Construction, services and public administration are therefore the sectors that will contribute to job creation in 2008-2009. It should be expected, however, that there will be a number of layoffs in companies related to the forestry sector, some of which have already taken place (MDF plant La Baie). Overall, some 250 jobs should be created in 2008, for a gain of less than 1 per cent.

The favourable economic environment in the Saguenay CMA is having a direct impact on migration movements. For Saguenay, this is all the more true when looking at the intraprovincial migration flows. According to data from the Institut de la statistique du Québec, the net migration loss from Saguenay[1] to other areas of Quebec went from 1,633 people in 2001/2002 down to 272 in 2006/2007. These results are having a major impact on housing demand, and this is being reflected in the various housing market segments. Since the economic environment remains favourable, it is expected that the increase in net intraprovincial migration will continue over the coming years. At the interprovincial level, the opposite trend is being observed, that is, the loss is growing, meaning that more people are leaving for other provinces. However, the extent of the departures is less significant, as the loss went from 13 people in 2003 up to 211 in 2006. Finally, only international migration has shown a positive net level since the beginning of the decade, but this level is far from being sufficient to offset the departures for other areas of Quebec or other provinces. Since the year 2000, the area has welcomed some 550 immigrants, or an average of 80 people a year. Efforts are being made to improve the overall net migration of the area, and initiatives such as the Stratégie MigrAction[2] will help to create favourable conditions for people coming to settle in the area. It is therefore expected that the migration deficit will go from more than 1,000 people to 500 in 2008 and then to 300 in 2009.

Still on the demographic front, it must be kept in mind that household formation has remained positive from year to year. In the Saguenay CMA, there should be some 350 new households annually, on average, over the next year five years. It goes without saying that this growth will be mainly attributable to the group aged 65 years or older, on account of the aging of the population, but divorced couples will also be a major reason for this growth. Finally, like everywhere across Quebec, a recent increase in births is being observed in the area, which could contribute to speeding up the homeownership process for some households.

Mortgage rates will remain relatively flat

Posted mortgage rates eased by about 50 basis points in the first four months of this year, although rates in late April were 30 to 35 basis points higher than they were 12 months prior. Mortgage rates are expected to trend marginally lower throughout 2008, but will be within 25-50 basis points of their current levels. For 2009, posted mortgage rates will begin to drift up slightly as the year progresses. For 2008 and 2009, the one-year posted mortgage rate is forecast to be in the 6.50-7.50 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 6.75-7.50 per cent range.

Very good year for housing starts in 2008

Residential construction has been on a roll for the last few years in the Saguenay CMA, but this was especially the case in 2007, as 685 housing units were started. To put this result in perspective, it should be noted that 347, 464 and 485 starts had been registered in 2004, 2005 and 2006, respectively. As well, all market segments contributed to the strong increase in activity in 2007. In fact, starts rose by 35 per cent over 2006 in the case of freehold homes[3], by 58 per cent for rental housing and by 2 per cent for condominiums. For 2008, 1,155 starts are expected, or 69 per cent more than in 2007. This would be the best result for the Saguenay CMA since 1989, when foundations

[1] ISQ website (Migration and Immigrant Population). Source: Processing by the Institut de la statistique du Québec of an anonymized version of the insured persons registration file (FIPA) of the Régie de l'assurance maladie du Québec (RAMQ), MRC (regional county municipality) or equivalent territory.
[2] MigrAction is a social project undertaken by young people involved in their community aimed at creating favourable conditions to resolve the issue of negative net migration (http://www.migraction.ca/index.php in French only).
[3] Freehold homes include single-detached, semi-detached and row houses, as well as duplexes.

had been laid for 1,128 dwellings. Given these forecasts, one could think that a real estate boom is taking place, but this is not really the case. There will effectively be strong construction activity, just like in 2007, but more than half of the expected units (600) will be part of two retirement housing projects. For 2009, some 610 starts are anticipated (-47 per cent).

Freehold homes

As mentioned earlier, freehold home construction contributed to the strong increase in starts in 2007. In fact, an upward trend in this market segment has been observed for the last few years, but it is believed that activity may be levelling off, given the strong performance registered in 2007. Current conditions continue to favour homeownership, and the factors affecting demand will have essentially the same impact in 2008 and 2009 as they did in 2007. Mortgage rates will remain low, and the net migration loss, especially for young households, should continue to ease. Another factor favouring starts of freehold homes is the lack of existing properties for sale. This is forcing some households to opt for a new home, as they cannot find one that suits them on the existing home market. The significant decrease in the rental housing vacancy rate over the last two years is another factor that must now be taken into account, since it is becoming increasingly difficult to find rental dwellings, especially good quality units. This should stimulate the construction of duplexes in 2008 and 2009.

It is therefore expected that 435 freehold houses will be built in 2008, or 5 more than in 2007 (+1 per cent). Among these, 370 will be single-detached homes spread out across the area. The boroughs of Jonquière and Chicoutimi will still garner most of the new houses, even though a number of lots have been opened in La Baie, and demand remains considerable in outlying towns. In 2009, the situation will remain relatively stable. It is anticipated that 445 freehold homes will be started, or 10 more than in 2008 (+2 per cent), as construction should get under way on more duplexes. As for the other housing types (single-detached, semi-detached and row homes), their starts levels should be essentially the same as in 2008.

Rental housing segment supported by retirement homes

Rental housing starts have been significantly affected by the number of retirement housing units built annually in the Saguenay CMA since the year 2000 (52 per cent of all rental housing starts). This reason is simple: while a surplus of units was observed on the traditional rental housing market, a shortage prevailed in the retirement home segment, which explains the interest of developers in this market. In addition, the aging of the population did warrant the construction of new units. This trend will continue in 2008, when two retirement homes, each comprising 300 units, will be started in the borough of Chicoutimi. It should be noted that this borough had a vacancy rate of 0.3 per cent (on the retirement home market) at the time of the October 2007 survey and that there was a need to build new units. In all, 700 rental housing units should be started in 2008, for an increase of 200 per cent over 2007. No retirement homes are expected to be built in 2009, but there should still be 145 traditional rental housing starts, or about 50 more than in 2008. The tightening observed on this rental market should therefore incite a few developers or builders to undertake more units than in recent years, since the conditions are more favourable (dynamic job market, improving net migration). As well, according to data from the CMHC Rental Market Survey, renter households are ready to pay a little more for newer, more modern dwellings.

Condominiums: a question of price?

In the last issue of this publication, the emergence of the condominium market was discussed. In fact, starts of dwellings of this type had risen from 0 units between 2000 and 2003, to 7 and 5 in 2004 and 2005, respectively, and had then exploded to 21 units in 2006. We had then forecast 25 starts for 2007, and the actual total was 24. But, is this really a growing market? Of course, more condominiums have been built in the last two years, but this type of housing does not yet seem to be very popular. The fact that new and existing properties are not as

expensive in this area as in other major urban centres across Quebec, where condominiums are well implanted, is probably the main reason for the low volume observed in Saguenay. In 2008 and 2009, about 20 units of this type should be started, mainly because the other housing types are not that much more expensive in Saguenay. Over the medium and long term, with the aging of the population, condominiums could become an interesting alternative for people who want to remain homeowners, while reducing the burden of maintaining a property.

Resale market characterized by limited supply

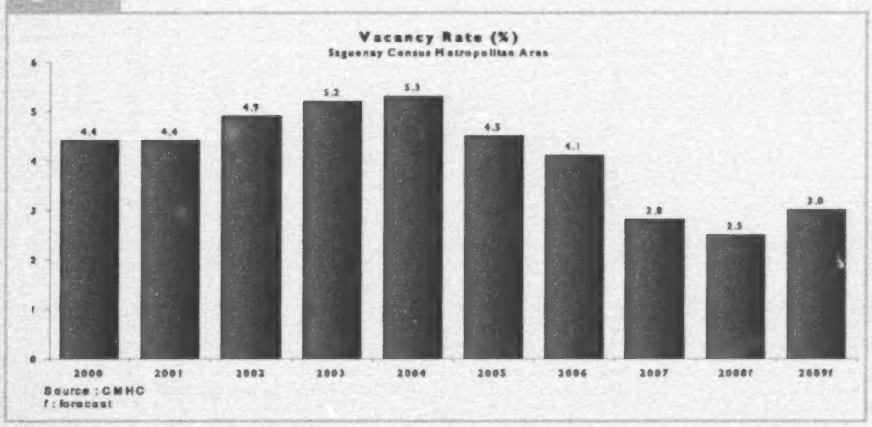
The resale market reached a new sales peak in 2007. In fact, 1,260 single-family homes were sold through the Service inter-agences / Multiple Listing Service (S.I.A. / MLS)® during the past year, beating the previous record set in 2005 (1,244 units). Once again, favourable economic conditions, good interest rates, improved net migration levels and a tighter rental market all put more pressure on demand for existing homes. In addition to these factors, there was also an increase in births, an event that often prompts young families to access homeownership. In 2008, all these factors, along with the arrival of some 20 soldiers at the Bagotville military base, will contribute to maintaining the number of sales at about the same level as in 2007, as around 1,250 transactions are anticipated. The same should hold true in 2009, when the supply of properties for sale could increase with the completion of the rental housing units for seniors in the borough of Chicoutimi. In fact, a number of households having pre-leased units in these complexes will have to sell their homes, increasing the choice of properties for sale, which had been rather limited in recent years. It is therefore expected that 1,250 transactions will be registered in 2009, or the same number as in 2008.

For the several years now, sellers have had the edge on the market on account of a limited supply and a strong demand. As a result, the price hikes have been well above inflation. In 2005, 2006 and 2007, the increases were 9 per cent, 10 per cent and 14 per cent, respectively. At the end of 2008, with supply not expected to rise considerably, the average price of single-family homes is expected to reach $150,000, up by 10 per cent over 2007. In 2009, given that supply should increase, it is anticipated that the average price will rise by 8 per cent.

Rental market expected to keep tightening

As had been forecast in the last issue of this publication, but to a lesser extent, the rental market was tighter in the Saguenay CMA at the time of October 2007 survey. In fact, the vacancy rate decreased from 4.1 per cent in October 2006 to 2.8 per cent in October 2007. This was in line with the trend observed on the other markets: demand has been vigorous. The aging of the population, the good performance of the job market and the return and/or the retention of young people in the area are all factors that will continue to put pressure on demand for rental housing. Supply, for its part, should not grow sufficiently to ease the market in 2008 and, for this reason, the vacancy rate is expected to decrease further and reach 2.5 per cent in October 2008. In 2009, supply can be expected to grow slightly faster in response to the easing of the market, and a small rise in the vacancy rate is anticipated (3 per cent).

Figure 2



Forecast Summary Saguenay CMA Spring 2008							
	2005	2006	2007	2008f	% chg	2009f	% chg
Resale Market							
MLS® Sales	1,244	1,232	1,260	1,250	-1.0	1,250	0
MLS® Average Price ($)	109,419	120,238	136,977	150,000	10.0	162,000	8
New Home Market							
Starts:							
Single-Detached	267	271	373	370	-1.0	370	0
Multiples	197	214	312	785	152.0	240	-69.0
Semi-Detached	22	22	6	15	150.0	20	33.0
Row/Townhouse	6	9	9	10	11.0	5	-50.0
Apartments	169	183	297	760	156.0	215	-72.0
Starts - Total	464	485	685	1,155	69.0	610	-47.0
Average Price ($):							
Single-Detached	149,894	159,316	178,206	185,000	3.9	195,000	5.4
New Housing Price Index (% chg) (Que.)	4.9	4.4	4.2	n/d	-	n/d	-
Rental Market							
October Vacancy Rate (%)	4.5	4.1	2.8	2.5	-0.3	3	0.5
Two-bedroom Average Rent (October) ($)	472	485	490	500	-	505	-
Economic Overview							
Mortgage Rate (1 year) (%)	5.80	6.30	7.35	6.95	-	6.83	-
Mortgage Rate (5 year) (%)	6.30	6.45	7.54	7.01	-	6.97	-
Annual Employment Level	71,800	68,200	70,400	70,475	0.4	71,000	0.7
Employment Growth (%)	4.5	-5.0	3.2	0.4		0.7	
Unemployment rate (%)	11	9.9	8.8	8.9	0.1	8.7	-0.2
Net Migration [1]	-1,335	-1,383	-900	-500	--	-300	--

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 migration data is forecasted

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